

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 L-03 H-01 PA-01 PRS-01 /097 W

-----002799 231646Z /44

R 231308Z DEC 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1592

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY BRUSSELS

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, OECD, UK

SUBJECT: UK EXCHANGE CONTROLS

SUMMARY: THE CHANGES TO TAKE EFFECT IN THE UK'S CURRENCY CONTROL REGULATIONS HAVE BEEN RECEIVED GRATEFULLY BY THE FINANCIAL COMMUNITY AND HAVE BEEN GENERALLY CHARACTERIZED AS A TINY MOVEMENT TOWARD LIBERALIZED CAPITAL MOVEMENTS. THERE ARE HOWEVER DISCRIMINATORY CHANGES IN THE REGULATIONS. EMBASSY ASSUMES WASHINGTON WILL PROVIDE GUIDANCE. END SUMMARY

1. ON JANUARY 1, THE UK WILL ALTER ITS EXCHANGE CONTROL REGULATIONS (SEE LONDON 20740). THE PRESS HAS CONCENTRATED ITS ATTENTION ON THE ABOLITION OF THE 25 PERCENT LIMITED OFFICIAL USE

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SURRENDER RULE. SEVERAL PAPERS CITED MR. NICHOLAS GOODISON, CHAIRMAN OF THE STOCK EXCHANGE, AS SAYING THAT THE DECISION WOULD GO "A VERY LONG WAY INDEED TOWARD RESTORING LONDON'S POSITION AS A MAJOR CAPITAL MARKET IN THE WORLD." THE SURRENDER PROVISION, SEEN BY MANY AS SIMPLY A TURNOVER TAX, IS WIDELY REGARDED AS IRKSOME AND INHIBITING THE MARKET'S ABILITY TO READJUST PORTFOLIOS IN

AN EFFICIENT MANNER. ALTHOUGH THE FINANCIAL TIMES CHARACTERIZED THE MEASURES AS A WELCOME "FIRST STEP" TOWARD ABOLISHING THE INVESTMENT CURRENCY MARKET ENTIRELY, THE POLITICAL DIFFICULTY OF CARRYING THIS OUT IN THE FACE OF EXTREMELY DETERMINED TUC OPPOSITION IS ACKNOWLEDGED.

2. EMBASSY FEELS THAT ALTHOUGH THE ABOLITION OF THE 25 PERCENT SURRENDER RULE CAN BE REGARDED AS A STEP TOWARD MORE LIBERALIZED INTERNATIONAL CAPITAL MOVEMENTS THE OTHER THREE MEASURES INTRODUCE ADDITIONAL DISTORTIONS OF INTERNATIONAL CAPITAL FLOWS. RELAXING THE "SUPER CRITERION" FOR DIRECT INVESTMENT IN THE EEC BUT NOT FOR THE REST OF THE WORLD, EFFECTIVELY RAISES THE RATE OF RETURN ON UK DIRECT INVESTMENT IN THE EEC RELATIVE TO THAT OF SIMILAR INVESTMENT ELSEWHERE. THE NEW RULES ON PERSONAL REMITTANCES ARE SIMILARLY DISCRIMINATORY WHILE THOSE RELATING TO LOAN FINANCED PURCHASES OF CERTAIN EEC RELATED SECURITIES SIMPLY SUBSIDIZE THE PURCHASE OF THESE SECURITIES.

3. EMBASSY'S GENERAL VIEWS ARE GIVEN IN LONDON 19828. ASSUME WASHINGTON WILL PROVIDE GUIDANCE PER STATE 294710. WE WILL LEAVE COMMENT ON LEGAL STATE OF UK'S EC-OECD OBLIGATIONS TO USOECD AND WASHINGTON LAWYERS. WE NOTE OECD EDRC REVIEW OF UK ECONOMY ON FEBRUARY 6, 1978 DOES PROVIDE AN OPPORTUNITY FOR CONSIDERED US COMMENT ON UK LIMITED OFFICIAL USE

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MEASURES IF WASHINGTON WISHES TO USE IT FOR THAT PURPOSE.

BREWSTER

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NNN

## Message Attributes

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**Disposition Date:** 22 May 2009  
**Disposition Event:**  
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**Enclosure:** n/a  
**Executive Order:** N/A  
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**Review Markings:**  
Margaret P. Grafeld  
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22 May 2009  
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